

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
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For the Quarter Ended September 30, 1996

Commission File Number: 814-61

CAPITAL SOUTHWEST CORPORATION  
(Exact name of registrant as specified in its charter)

Texas 75-1072796  
(State or other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification Number)

12900 Preston Road, Suite 700, Dallas, Texas 75230  
(Address of principal executive offices including zip code)

(972) 233-8242  
(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

3,767,051 shares of Common Stock, \$1 Par Value as of October 31, 1996

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARY  
Consolidated Statements of Financial Condition

Assets	September 30, 1996 ----- (Unaudited)	March 31, 1996 -----
Investments at market or fair value		
Companies more than 25% owned		
(Cost: September 30, 1996 - \$21,480,361, March 31, 1996 - \$21,480,361)	\$208,425,840	\$191,043,920
Companies 5% to 25% owned		
(Cost: September 30, 1996 - \$21,750,404, March 31, 1996 - \$18,750,404)	28,787,002	19,633,672
Companies less than 5% owned		
(Cost: September 30, 1996 - \$18,313,335, March 31, 1996 - \$18,313,335)	54,710,201	46,252,869
Total investments		
(Cost: September 30, 1996 - \$61,544,100, March 31, 1996 - \$58,544,100)	291,923,043	256,930,461
Cash and cash equivalents	8,783,893	67,045,185
Receivables	152,379	285,002
Other assets	2,950,216	2,711,802
Totals	\$303,809,531 =====	\$326,972,450 =====

Liabilities and Shareholders' Equity

Note payable to bank	\$ -	\$50,000,000
Accrued interest and other liabilities	1,561,284	1,669,839
Income taxes payable	6,050,730	6,050,730
Deferred income taxes	80,462,128	69,204,128
Subordinated debentures	5,000,000	11,000,000
Total liabilities	93,074,142 -----	137,924,697 -----

Shareholders' equity  
Common stock, \$1 par value: authorized,

5,000,000 shares; issued, 4,204,416 shares at September 30, 1996 and March 31, 1996	4,204,416	4,204,416
Additional capital	4,813,121	4,813,121
Undistributed net investment income	5,382,429	4,490,374
Undistributed net realized gain on investments	53,307,782	53,307,782
Unrealized appreciation of investments - net of deferred income taxes	150,060,943	129,265,362
Treasury stock - at cost (437,365 shares)	(7,033,302)	(7,033,302)
	-----	-----
Net assets at market or fair value, equivalent to \$55.94 per share at September 30, 1996, and \$50.18 per share at March 31, 1996 on the 3,767,051 shares outstanding		
Totals	210,735,389	189,047,753
	-----	-----
	\$303,809,531	\$326,972,450
	=====	=====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION  
AND SUBSIDIARY  
Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended September 30		Six Months Ended September 30	
	1996 ----	1995 ----	1996 ----	1995 ----
Investment income:				
Interest	\$ 314,755	\$ 507,221	\$ 684,702	\$1,034,274
Dividends	802,483	646,449	1,604,967	1,292,103
Management and directors' fees	141,100	127,750	298,200	268,300
	-----	-----	-----	-----
	1,258,338	1,281,420	2,587,869	2,594,677
	-----	-----	-----	-----
Operating expenses:				
Interest	194,997	350,686	430,610	587,395
Salaries	198,611	214,607	388,882	394,206
Net pension expense (benefit)	(122,777)	(43,993)	(174,952)	(104,351)
Other operating expenses	110,915	110,630	232,039	231,290
	-----	-----	-----	-----
	381,746	631,930	876,579	1,108,540
	-----	-----	-----	-----
Income before income taxes	876,592	649,490	1,711,290	1,486,137
Income tax expense	47,825	16,114	65,825	37,114
	-----	-----	-----	-----
Net investment income	\$ 828,767	\$ 633,376	\$1,645,465	\$1,449,023
	=====	=====	=====	=====
Increase in unrealized appreciation of investments before income taxes and distributions	\$19,238,921	\$36,968,158	\$31,992,581	\$40,988,026
Increase in deferred income taxes on appreciation of investments	6,734,000	9,696,000	11,197,000	11,103,000
	-----	-----	-----	-----
Net increase in unrealized appreciation of investments before distributions	12,504,921	27,272,158	20,795,581	29,885,026
	-----	-----	-----	-----
Net realized and unrealized gain on investments	\$12,504,921	\$27,272,158	\$20,795,581	\$29,885,026
	=====	=====	=====	=====
Increase in net assets from operations before distributions	\$13,333,688	\$27,905,534	\$22,441,046	\$31,334,049
	=====	=====	=====	=====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION  
AND SUBSIDIARY  
Consolidated Statements of Changes in Net Assets

	Six Months Ended September 30, 1996 ----- (Unaudited)	Year Ended March 31, 1996 -----
Operations		
Net investment income	\$ 1,645,465	\$ 2,854,917
Net realized gain on investments	-	11,174,025
Net increase in unrealized appreciation of investments before distributions	20,795,581 -----	38,745,668 -----
Increase in net assets from operations before distributions	22,441,046	52,774,610
Distributions from:		
Undistributed net investment income	(753,410)	(2,253,831)
Undistributed net realized gain on investments	-	(153,376)
Unrealized appreciation of investments	-	(9,264,304)
Capital share transactions		
Exercise of employee stock options	- -----	574,750 -----
Increase in net assets	21,687,636	41,677,849
Net assets, beginning of period	189,047,753 -----	147,369,904 -----
Net assets, end of period	\$210,735,389 =====	\$189,047,753 =====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION  
AND SUBSIDIARY  
Consolidated Statements of Cash Flows  
(Unaudited)

	Three Months Ended September 30		Six Months Ended September 30	
	1996	1995	1996	1995
	----	----	----	----
Cash flows from operating activities				
Increase in net assets from operations before distributions	\$ 13,333,688	\$27,905,534	\$22,441,046	\$31,334,049
Adjustments to reconcile increase in net assets from operations before distributions to net cash provided by operating activities:				
Depreciation and amortization	5,709	7,606	16,180	15,214
Net pension benefit	(122,777)	(43,993)	(174,952)	(104,351)
Net realized and unrealized gain on investments	(12,504,921)	(27,272,158)	(20,795,581)	(29,885,026)
(Increase) decrease in receivables	212,808	(78,381)	132,623	(90,630)
(Increase) decrease in other assets	19,619	14,695	(13,696)	(17,550)
Decrease in accrued interest and other liabilities	(106,307)	(7,396)	(174,502)	(56,173)
Deferred income taxes	43,000	16,000	61,000	37,000
	-----	-----	-----	-----
Net cash provided by operating activities	880,819	541,907	1,492,118	1,232,533
	-----	-----	-----	-----
Cash flows from investing activities				
Purchases of securities	-	(10,877,132)	(3,000,000)	(10,877,132)
Maturities of securities	-	-	-	110,669
	-----	-----	-----	-----
Net cash used by investing activities	-	(10,877,132)	(3,000,000)	(10,766,463)
	-----	-----	-----	-----
Cash flows from financing activities				
Increase (decrease) in notes payable to bank	-	79,500,000	(50,000,000)	79,500,000
Increase in note payable to Skylawn Corp.	-	2,500,000	-	2,500,000
Repayment of subordinated debenture	(6,000,000)	-	(6,000,000)	-
Distributions from undistributed net investment income	-	-	(753,410)	(747,010)
Distributions from undistributed net realized gain on investments	-	(15,842)	-	(15,842)
Proceeds from exercise of employee stock options	-	574,750	-	574,750
	-----	-----	-----	-----
Net cash provided (used) by financing activities	(6,000,000)	82,558,908	(56,753,410)	81,811,898
	-----	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	(5,119,181)	72,223,683	(58,261,292)	72,277,968
Cash and cash equivalents at beginning of period	13,903,074	8,427,261	67,045,185	8,372,976
	-----	-----	-----	-----
Cash and cash equivalents at end of period	\$ 8,783,893	\$80,650,944	\$ 8,783,893	\$80,650,944
	=====	=====	=====	=====

(Continued)

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION  
AND SUBSIDIARY  
Consolidated Statements of Cash Flows  
(Unaudited)

Continued

	Three Months Ended September 30		Six Months Ended September 30	
	1996	1995	1996	1995
	----	----	----	----
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	\$ 264,658	\$ 354,305	\$ 490,849	\$ 553,757
Income taxes	\$ 9	\$ 114	\$ 9	\$ 114

Supplemental disclosure of financing activities:

On July 31, 1995, Capital Southwest Corporation distributed to its shareholders 940,184 shares of common stock of Palm Harbor Homes, Inc., which had a fair market value of \$10.00 per share, or \$9,401,838, as adjusted for a 5-for-4 stock split on August 2, 1996.

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST VENTURE CORPORATION  
(wholly-owned subsidiary of Capital Southwest Corporation)  
Statement of Financial Condition  
September 30, 1996  
(Unaudited)

Assets

Investments at market or fair value	
Companies more than 25% owned (Cost - \$4,295,737)	\$43,840,782
Companies 5% to 25% owned (Cost - \$3,814,816)	9,539,001
Companies less than 5% owned (Cost - \$9,260,982)	27,905,072
	-----
Total investments (Cost - \$17,371,535)	81,284,855
Cash and cash equivalents	4,502,670
Interest and dividends receivable	55,521
Other assets	53,603
	-----
Total	\$85,896,649
	=====

Liabilities and Shareholder's Equity

Accrued interest and other liabilities	\$ 170,003
Deferred income taxes	22,004,000
Subordinated debenture	5,000,000
	-----
Total liabilities	27,174,003

Shareholder's equity

Common stock, \$1 par value: authorized 5,000,000 shares; issued and outstanding, 1,000,000 shares	1,000,000
Additional capital	15,606,949
Undistributed net investment income	1,372,844
Accumulated net realized loss on investments	(816,467)
Unrealized appreciation of investments - net of deferred income taxes	41,559,320
	-----

Shareholder's equity	58,722,646
	-----

Total	\$85,896,649
	=====

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST VENTURE CORPORATION  
(wholly-owned subsidiary of Capital Southwest Corporation)  
Statement of Operations  
Six Months Ended September 30, 1996  
(Unaudited)

Investment income:	
Interest	\$ 516,695
Dividends	627,582
	-----
	1,144,277
	-----
Operating expenses:	
Interest	430,610
Management fee	64,856
Miscellaneous	7,629
	-----
	503,095
	-----
Net investment income	\$ 641,182
	=====
Net increase in unrealized appreciation of investments before distribution (net of increase in deferred income taxes of \$888,000)	\$1,649,984
	-----
Net realized and unrealized gain on investments	\$1,649,984
	=====
Increase in shareholder's equity from operations before distribution	\$2,291,166
	=====

Statements of Changes in Shareholder's Equity

	Six Months Ended September 30, 1996 ----- (Unaudited)	Year Ended March 31, 1996 -----
Net investment income	\$ 641,182	\$ 1,508,704
Net realized loss on investments	-	(552,240)
Net increase in unrealized appreciation of investments before distribution	1,649,984	12,662,525
	-----	-----
Increase in shareholder's equity from operations before distribution	2,291,166	13,618,989
Capital contribution by Capital Southwest Corporation	-	2,500,000
Distributions to Capital Southwest Corporation from:		
Undistributed net investment income	-	(1,089,251)
Accumulated net realized loss on investments	-	(137,765)
Unrealized appreciation of investments	-	(9,279,873)
	-----	-----
Increase in shareholder's equity	2,291,166	5,612,100
Shareholder's equity, beginning of period	56,431,480	50,819,380
	-----	-----
Shareholder's equity, end of period	\$58,722,646	\$56,431,480
	=====	=====

(See Notes to Consolidated Financial Statements)



CAPITAL SOUTHWEST VENTURE CORPORATION  
(wholly-owned subsidiary of Capital Southwest Corporation)  
Statement of Cash Flows  
Six Months Ended September 30, 1996  
(Unaudited)

Cash flows from operating activities	
Increase in shareholder's equity from operations before distribution	\$2,291,166
Adjustments to reconcile increase in shareholder's equity from operations before distribution to net cash provided by operating activities:	
Net realized and unrealized gain on investments	(1,649,984)
Decrease in interest and dividends receivable	47,761
Decrease in other assets	8,147
Decrease in accrued interest and other liabilities	(170,215)
	-----
Net cash provided by operating activities	526,875
	-----
 Cash flows from investing activities	 -
 Cash flows from financing activities	
Repayment of subordinated debenture	(6,000,000)
	-----
Net increase in cash and cash equivalents	(5,473,125)
Cash and cash equivalents at beginning of period	9,975,795
	-----
Cash and cash equivalents at end of period	\$4,502,670
	=====
 Supplemental disclosure of cash flow information:	
Cash paid during the period for:	
Interest	\$ 465,205
Income taxes	\$ -

(See Notes to Consolidated Financial Statements)

CAPITAL SOUTHWEST CORPORATION  
AND SUBSIDIARY  
Notes to Consolidated Financial Statements  
(Unaudited)

1. Basis of Presentation

The accompanying consolidated financial statements, which include the accounts of Capital Southwest Corporation and its wholly-owned small business investment company subsidiary (the "Company"), have been prepared on the value basis in accordance with generally accepted accounting principles for investment companies. All significant intercompany accounts and transactions have been eliminated in consolidation.

The financial statements included herein have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 6 of Regulation S-X. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended March 31, 1996. Certain information and footnotes normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although the Company believes that the disclosures are adequate for a fair presentation. The information reflects all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim periods.

2. Summary of Per Share Information

	Three Months Ended September 30		Six Months Ended September 30	
	1996 ----	1995 ----	1996 ----	1995 ----
Investment income	\$ .33	\$ .34	\$ .69	\$ .69
Operating expenses	(.05)	(.08)	(.12)	(.14)
Interest expense	(.05)	(.09)	(.11)	(.16)
Income taxes	(.01)	-	(.02)	(.01)
	-----	-----	-----	-----
Net investment income	.22	.17	.44	.38
Distributions from undistributed net investment income	-	-	(.20)	(.20)
Distributions from undistributed net realized gain on investments	-	(.04)	-	(.04)
Net increase in unrealized appreciation of investments before distributions	3.32	7.24	5.52	7.94
Distributions from unrealized appreciation of investments	-	(2.46)	-	(2.46)
Exercise of employee stock options	-	(.19)	-	(.19)
	-----	-----	-----	-----
Net increase in net asset value	3.54	4.72	5.76	5.43
Net asset value:				
Beginning of period	52.40	40.17	50.18	39.46
	-----	-----	-----	-----
End of period	\$55.94	\$44.89	\$55.94	\$44.89
	=====	=====	=====	=====
Shares outstanding at end of period (000s omitted)	3,767	3,767	3,767	3,767

Net decrease is due to the exercise of employee stock options at prices less than beginning of period net asset value.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Interest income in the six months ended September 30, 1996 decreased from the year-ago period primarily because of the repayment of debentures by portfolio companies offset somewhat by an increase in invested idle funds. During the six months ended September 30, 1996 and 1995, the Company recorded dividend income from the following sources:

	Six Months Ended September 30	
	1996	1995
The RectorSeal Corporation	\$ 600,001	\$ 600,001
Alamo Group Inc.	532,000	532,000
Skylawn Corporation	300,000	-
Cherokee Communications, Inc.	72,000	72,000
Westmarc Communications, Inc.	40,635	40,635
Other	60,331	47,467
	-----	-----
	\$1,604,967	\$1,292,103
	=====	=====

Interest expense in the six months ended September 30, 1996 decreased from the year-ago period due to the repayment of bank debt and a subordinated debenture.

Set forth in the following table are the significant increases and decreases in unrealized appreciation (before the related change in deferred taxes and excluding the effect of gains or losses realized during the periods) by portfolio company:

	Three Months Ended September 30		Six Months Ended September 30	
	1996	1995	1996	1995
	-----	-----	-----	-----
Alamo Group Inc.	\$ (2,143,000)	\$ 1,609,000	\$ (6,968,000)	\$ 3,920,000
American Homestar Corporation	(500,705)	970,025	1,552,185	1,258,113
Amfibe, Inc.	-	-	600,000	-
Data Race, Inc.	830,000	(2,621,300)	830,000	(1,809,300)
Dennis Tool Company	-	-	-	(800,000)
Encore Wire Corporation	5,171,000	(455,400)	5,326,000	(3,567,000)
Lil' Things, Inc.	(917,540)	-	(1,835,670)	-
Mail-Well, Inc.	1,824,000	3,669,990	1,833,000	3,669,990
PTS Holdings, Inc.	-	-	3,000,000	-
Palm Harbor Homes, Inc.	12,568,000	17,290,777	21,918,000	17,290,777
PETSMART, Inc.	1,308,440	4,168,906	4,906,650	6,622,950
The RectorSeal Corporation	2,000,000	-	2,000,000	-
Tecnol Medical Products, Inc.	(826,938)	(505,351)	(574,262)	45,941
Tele-Communications, Inc.-TCI Group	(562,500)	135,000	(652,500)	573,750

On July 31, 1995, Capital Southwest Corporation distributed 940,184 shares (adjusted for the 8/96 stock split) of common stock of Palm Harbor Homes, Inc. on the basis of 1.25 shares for each five shares of Capital Southwest common stock of record on July 17, 1995. Cash payments were made in lieu of Palm Harbor common stock to record holders of fewer than 50 shares of Capital Southwest common stock and in lieu of fractional shares. The fair market value of Palm Harbor common stock on the July 31, 1995 distribution date was determined to be \$10.00 per share (adjusted for the 8/96 stock split).

During the quarter ended September 30, 1996, the Company made no new investments.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Stockholders was held on July 15, 1996, with the following results of elections and approval:

	Votes Cast		
	For	Against/ Withheld	Abstentions/ Non-Votes
a. The following Directors were elected to serve until the next Annual Meeting of Stockholders:			
Graeme W. Henderson	3,052,135	9,064	705,852
Gary L. Martin	3,052,135	9,064	705,852
James M. Nolan	3,052,135	9,064	705,852
William R. Thomas	3,052,126	9,073	705,852
John H. Wilson	3,051,335	9,864	705,852
b. KPMG Peat Marwick LLP was approved as the Company's auditors for the 1997 fiscal year.	2,982,552	6,598	777,901
c. Amendment of the fundamental investment policies of Capital Southwest Corporation was approved.	2,498,471	57,046	1,211,534
d. Amendment of the fundamental investment policies of Capital Southwest Venture Corporation was approved.	2,495,155	60,498	1,211,398

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 27 - Financial Data Schedule

(b) Reports on Form 8-K

No reports on Form 8-K have been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CAPITAL SOUTHWEST CORPORATION

November 12, 1996  
Date: \_\_\_\_\_

/s/William R. Thomas  
By: \_\_\_\_\_  
William R. Thomas, President

November 12, 1996  
Date: \_\_\_\_\_

/s/Tim Smith  
By: \_\_\_\_\_  
Tim Smith, Vice President and Secretary-Treasurer

EXHIBIT INDEX

Exhibit Number	Description
-----	-----
27	Financial Data Schedule



(1) This schedule contains summary financial information extracted from the consolidated statement of financial condition at September 30, 1996 (unaudited) and the consolidated statement of operations for the six months ended September 30, 1996 (unaudited) and is qualified in its entirety by reference to such financial statements.

6-MOS		
	MAR-31-1996	
	APR-01-1996	
	SEP-30-1996	
	61,544,100	
	291,923,043	
		152,379
		2,950,216
	8,783,893	
		303,809,531
		0
	5,000,000	
	88,074,142	
		93,074,142
		0
	9,017,537	
		3,767,051
		3,767,051
	5,382,429	
		0
	53,307,782	
		0
	150,060,943	
		210,735,389
		1,604,967
		684,702
		298,200
		876,579
	1,645,465	
		0
	20,795,581	
		22,441,046
		0
	753,410	
		0
		0
		0
		0
		0
	21,687,636	
	4,490,374	
	53,307,782	
		0
		0
		430,610
		876,579
		0
	50.18	
		.44
	5.52	
	(.20)	
		0
		0
		55.94
		0
		0
		0



